

ISSUE DATE: August 11, 1995

DOCKET NO. G-999/CI-95-696

ORDER INITIATING INVESTIGATION AND REQUESTING COMMENTS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm
Tom Burton
Joel Jacobs
Marshall Johnson
Dee Knack

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of an Investigation into Whether
the Purchased Gas Adjustment (PGA) is Still
Appropriate

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PROCEDURAL HISTORY

On June 29, 1995, at the conclusion of deliberations on the 1994 Annual Automatic Adjustment Reports and True-up Adjustments in Docket No. G,E-999/AA-94-762, the Commission asked Staff to review whether the automatic adjustment (PGA) mechanism is still appropriate for gas utilities.

On August 3, 1995, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

A. Commission Authority

Minn. Stat. § 216B.16, subd. 7 (1994)¹ allows but does not require the Commission to allow gas utilities to adjust their rates monthly for the estimated cost of gas and to return (or recover) the over (or under) -recovered amount in an annual true-up. In practice, the Commission has allowed gas utilities to make this adjustment.

In addition, Minn. Rules, Part 7825.2920, subp. 3, allows the Commission to fix at current levels, discontinue or modify an automatic adjustment mechanism for an individual utility. The Commission has exercised its authority under this section of the rules only once, when it modified Western Gas' PGA in Docket No. G-012/AA-93-218.

B. Changes in the Gas Industry

¹ Minn. Stat. § 216B.16, subd. 7. Energy cost adjustments. Notwithstanding any other provision of this chapter, the commission *may permit* a public utility to file rate schedules containing provisions for the automatic adjustment of charges for public utility service in direct relation to changes in: (1) federally regulated wholesale rates for energy delivered through interstate facilities; (2) direct costs for natural gas delivered; or (3) costs for fuel used in generation of electricity or the manufacture of gas.

Within the recent years, several changes in the gas industry have brought into question whether the PGA is still appropriate and in the public interest. Those changes include the following:

1. increased competition in the gas industry resulting from action at the federal level:
 - a. the Natural Gas Policy Act of 1978, which provided for phased decontrol of gas prices at the wellhead;
 - b. Federal Energy Regulatory Commission (FERC) Order 436 (issued on October 9, 1985), which provided the impetus for open access pipeline transportation service; and
 - c. FERC's Restructuring Rule in Orders 636, 636-A and 636-B, which promoted increased competition amongst gas suppliers and gave local distribution companies (LDCs) more alternatives to choose from in constructing their gas supply, transportation, and storage portfolios; and
2. enactment of Minn. Stat. § 216B.167 (1995) which authorizes performance-based gas purchasing regulation.

C. Commission Action

In light of these and other changes affecting the gas industry, the Commission finds it appropriate to initiate an investigation, an industry-wide proceeding which will be open to participation from any interested party, to examine whether the automatic adjustment (PGA) mechanism is still appropriate for gas utilities.

As a first step in this investigation and to assist in developing a record commensurate with the scope of this issue, the Commission will request comments from interested parties on the following items:

1. Is the PGA still appropriate?
2. Do LDCs have sufficient control over their gas costs to make the PGA unnecessary?
3. What effect does the opportunity to implement performance-based gas purchasing plans, pursuant to Minn. Stat. § 216B.167 (1995), have on the continuing need for the PGA?

4. Is the gas industry sufficiently competitive to make rate base/rate of return regulation and the PGA unnecessary? Is there an alternative form of regulation that would be more appropriate? Should core and non-core, i.e. captive and non-captive, customers be treated the same?
5. Is the provision (and pricing) of natural gas becoming more commodity-like and subject to going-rate pricing or is it becoming a more value-added kind of service in which the LDC is able to differentiate its product from competitors and charge different prices?
6. If natural gas is becoming a more differentiated product, on what basis can it be determined that products are different, and on what basis can it be determined that price discrimination has not occurred?
7. What impact does the LDC's ability to offer agency services, other non-regulated utility services or to engage in affiliate transactions have on its ability to differentiate its product and on whether the PGA is still appropriate?
8. Does the trend toward unbundling of retail service have an impact on whether the PGA is still appropriate? Please explain with respect to: a) large-volume, b) small-volume, c) industrial, d) commercial and e) residential customers.

Parties may also file comments on any other issues they consider relevant to the subject of this investigation.

ORDER

1. The Commission hereby initiates an investigation into whether the automatic adjustment (PGA) mechanism is still appropriate for gas utilities in Minnesota.
2. Within 45 days of this Order, any interested party may file initial comments on the 8 questions listed in the text of this Order and on any other issues they consider relevant to the subject of this investigation. Responses to these comments will be due 15 days later.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)